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MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

the Jones Store co.
the Jones Store co.

1963 Annual Report

FOR THE YEAR ENDING JANUARY 31, 1964

MERCANTILE STORES COMPANY, INC.

LIST OF OUR STORES

BACON'S (Estab. 1845)
- Louisville, Ky.
  - St. Matthew's
  - Shively
  - Jeffersonville, Ind.

CASTNER-KNOTT (Estab. 1898)
- Nashville, Tenn.
  - Green Hills
  - Donelson
  - Shelbyville

CREWS-BEGGS (Estab. 1888)
- Pueblo, Colo.

O. J. De LENDRECIES (Estab. 1879)
- Fargo, North Dakota

GAYFER'S (Estab. 1879)
- Mobile, Ala.
  - Springdale
  - Pensacola, Fla.
  - Edgewater, Miss. (Opened September, 1963)

GLASS BLOCK (Estab. 1887)
- Duluth, Minn.

HENNESSY'S (Estab. 1885)
- Butte, Mont.
  - Livingston

JONES (Estab. 1887)
- Kansas City, Mo.
  - Blue Ridge
  - Troost Ave.
  - Independence
  - Prairie Village, Kans.
  - Pittsburg, Kans.
  - Muskogee, Okla.

JOSLIN'S (Estab. 1873)
- Denver, Colo.
  - Englewood
  - Lakewood
  - Greeley
  - Merchants Park
  - Boulder
  - Aurora

LAZARUS (Estab. 1889)
- Wilkes-Barre, Pa.

LION (Estab. 1857)
- Toledo, Ohio
  - Westgate

MACDOUGALL'S (Estab. 1875)
- Seattle, Wash.
  - Wenatchee
    - *Appliance Stores:*
      - West Seattle
      - Kirkland
      - Lake City
      - Greenwood Ave.

MCALPIN'S (Estab. 1852)
- Cincinnati, Ohio
  - Kenwood
  - Western Hills
  - Cherry Grove
  - Middletown

MONTGOMERY FAIR (Estab. 1868)
- Montgomery, Ala.
  - Eastbrook
  - Opelika

PEOPLES (Estab. 1888)
- Tacoma, Wash.
  - Yakima
  - Lakewood
  - Port Angeles

THE RIGHT HOUSE (Estab. 1843)
- Hamilton, Ontario, Canada
  - Brantford
  - Galt
  - St. Catharines

ROOT'S (Estab. 1856)
- Terre Haute, Ind.
  - Sullivan
  - Robinson, Ill.
  - Paris, Ill.

J. B. WHITE (Estab. 1874)
- Augusta, Ga.
  - National Hills (Opened February, 1963)
  - Aiken, S. C.

J. B. WHITE (Estab. 1874)
- Columbia, S. C.—Richland Mall
  - Downtown Store

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Represented in the markets by
MERCANTILE STORES COMPANY, INC. (N. Y.)
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.
Cable Address: *Merstore*

MERCANTILE STORES COMPANY, Inc.

BOARD OF DIRECTORS

John E. Bierwirth
F. K. Bradley
Morgan A. Casey
Ashton Hawkins
Harold W. Jockers
F. G. Kingsley
Gerrish H. Milliken, Jr.
Minot K. Milliken
Roger Milliken
George S. Moore
R. Nelson Shaw
Ralph S. Stillman

OFFICERS

Harold W. Jockers, *Chairman of the Board*
F. K. Bradley, *President*
F. G. Kingsley, *Chairman of the Executive Committee*
R. Nelson Shaw, *Executive Vice-President*
Morgan A. Casey, *Vice-President & Treasurer*
Charles E. Stallings, *Vice-President*
Abbott D. Churbuck, *Vice-President*
R. S. Kizer, *Controller*
Ashton Hawkins, *Secretary*

Stock Transfer Agent
Chemical Bank New York Trust Company
20 Pine Street
New York

Registrar of Stock
First National City Bank
399 Park Avenue
New York

FINANCIAL HIGHLIGHTS

IN BRIEF

	1963 (Year ended Jan. 31, 1964)	*1962* (Year ended Jan. 31, 1963)
Sales	$192,408,732	$183,840,305
Sales Increase Percentage	4.7%	4.6%
Profit Before Income Taxes	$11,160,157	$10,297,664
Percent to Sales	5.8%	5.6%
Net Profit	$5,370,157	$4,887,664
Profit Per Share	$1.82	$1.66
Dividends Paid:		
Per Share	$1.00	$1.00
Percentage of Profit Paid Out	55%	60%
Cash Flow:		
Amount in Dollars	$8,763,000	$8,083,000
Amount Per Share	$2.97	$2.74
Book Value Per Share	$20.23	$19.41
Working Capital	$37,533,095	$37,290,759

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARIES

100 West 10th Street
Wilmington, Delaware
April 10, 1964

Fellow Stockholders:

This is the annual report for the year ended January 31, 1964, our forty-fifth year. Sales, pre-tax profits and per share earnings were all at the highest levels ever reached in our Company.

The net profit for the year was $5,370,157. Earnings per share were $1.82. Sales increased 4.7% over last year.

Profit

Profit before income taxes topped eleven million dollars for the first time. The pre-tax profit of $11,160,157 was $862,493 higher than the preceding year.

The percentage of pre-tax profit to sales was improved by a fraction. The figure for the year under review was 5.8%, compared with 5.6% for last year.

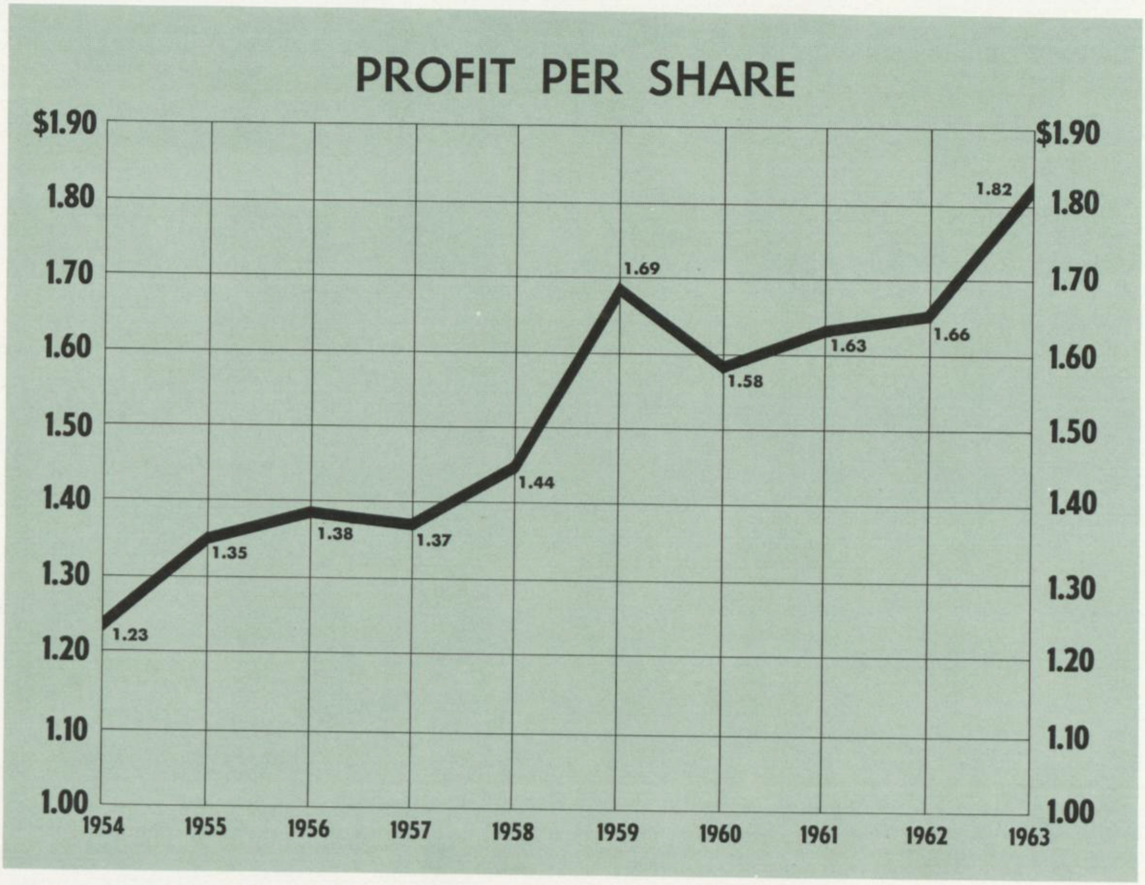
Profit for the current year was reduced by about 5 cents per share because of Canadian exchange. A charge against income was made in the amount of $148,000 for unrealized losses in Canadian exchange. The provision this year of $148,000 plus $100,000 set up last year makes a total of $248,000 set aside. There have been no realized losses charged against this. If the Canadian dollar stays at about the same level as present (between 92½ and 93) no further provision of any consequence is contemplated. The present reserve will be adequate and it is expected that the coming year's operations will not have a comparable charge for Canadian exchange.

The net profit for the year under review was increased by about $100,000 (approximately 3 cents per share) because of the so-called investment credit. The provision for income taxes was reduced by this amount. The Revenue Act of 1962 granted a modest reduction in Federal income taxes, measured in part by how much a taxpayer invests in certain classes of properties. The 1964 Revenue Act liberalized this to some degree (eliminated the 1962 requirement that whatever was saved in taxes had to be deducted from future depreciation—spread over the life of the asset). For the preceding year, the profit results of our Company were effected by only about $2,000 because of this factor. If the tax law remains unchanged on this point, it is reasonable to expect a credit to earnings (in varying amounts) in the coming years from this source in our Company because of our relatively steady expansion program. We expect to invest monies in properties in the future as we have in the past.

The gross profit percentage was raised a fraction this past year. Expenses were at almost the same percentage level as the year before.

The profit per share of $1.82 is the largest in the forty-five years our Company has been operating. Back in the years just after the second world war, when pent up demand for previously scarce merchandise caused a sizable spurt in our business, we earned $1.73 per share (year ended January 31, 1948). That was the highest per share earnings prior to this year's $1.82.

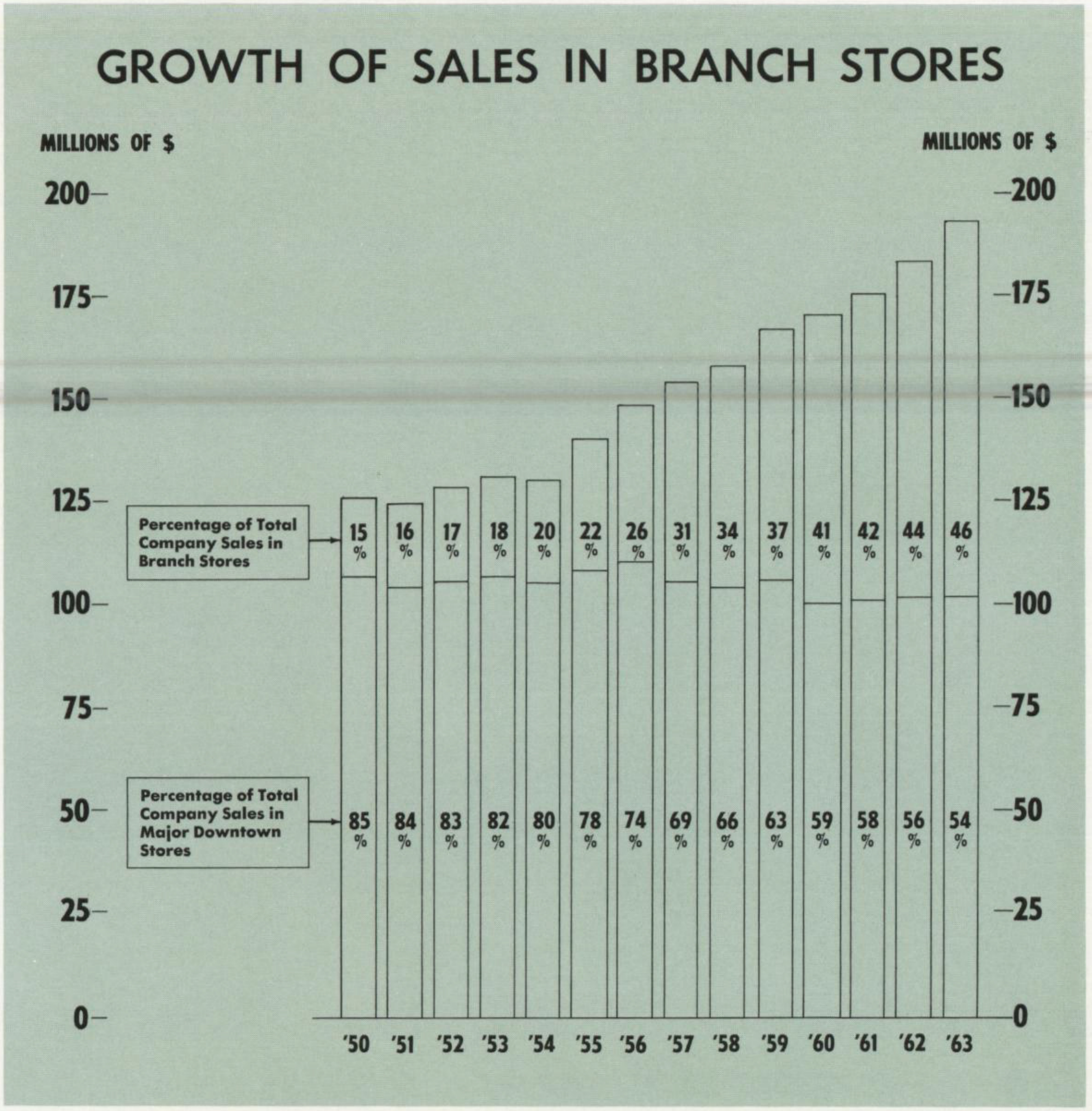
The chart below gives the profit per share for the last ten years.



Sales

The sales for the year of $192,408,732 represented a new high for our Company. This is the ninth year in a row in which a new sales record has been made. The increase in sales amounted to $8,568,427 or 4.7%. Sales in comparable stores open both years, showed an increase of 2.0%.

Our business in branch stores is continuing to grow. In the year just closed, 46% of the total sales of the Company came from branch stores. Back in 1950, sales in branch stores represented only 15% of total Company volume. A program of adding stores to our group was started in 1944 and since then we have added one or more stores in each year. The dollar volume from branch stores for the year just closed was about $89,202,000. The chart below shows how the branch store volume has increased.



It is interesting to review the pattern of the way these suburban branch stores have grown. We reviewed the results of all branch stores opened during the last ten years—and included all stores that had completed at least two full years of operations at January 31, 1964. We determined the average growth in sales year by year. To clarify this, the sales of all the stores in this group of new stores which had completed two years of operations—were totaled for the first full year of operation, and sales were totaled for those same stores for the second year (there were 17 stores in these totals). The second year total showed an increase of 19.98% in sales over the first full year totals. Similarly, the stores which had both two and three full years completed were totaled and the sales increase in the third full year over the second year—averaged 15.39%. This process was carried on down and the average for all these new stores showed the following growth in sales:

PERCENTAGE INCREASE IN SALES:

COMPARING FULL YEARS OF OPERATION

2nd year over 1st year	19.98%
3rd year over 2nd year	15.39%
4th year over 3rd year	9.68%
5th year over 4th year	6.76%
6th year over 5th year	11.49%
7th year over 6th year	5.58%
8th year over 7th year	10.97%

At the end of the eighth year, the average showed an increase in sales of 79.85% over the first year's sales.

Similarly, the pre-tax profits of this same group of new stores were reviewed. The same procedure was followed for pre-tax profits as just described for sales.

The average of the pre-tax profits showed an even greater increase than sales. The results were:

Percentage Increase in the Dollar Amount of Pre-Tax Profits:

Comparing Full Years of Operation

2nd year over 1st year	56.10%
3rd year over 2nd year	29.67%
4th year over 3rd year	7.11%
5th year over 4th year	10.12%
6th year over 5th year	19.28%
7th year over 6th year	.48%
8th year over 7th year	16.61%

At the end of the eighth year, the average showed an increase of 139.37% (more than double) in pre-tax profits over the profits of the first year.

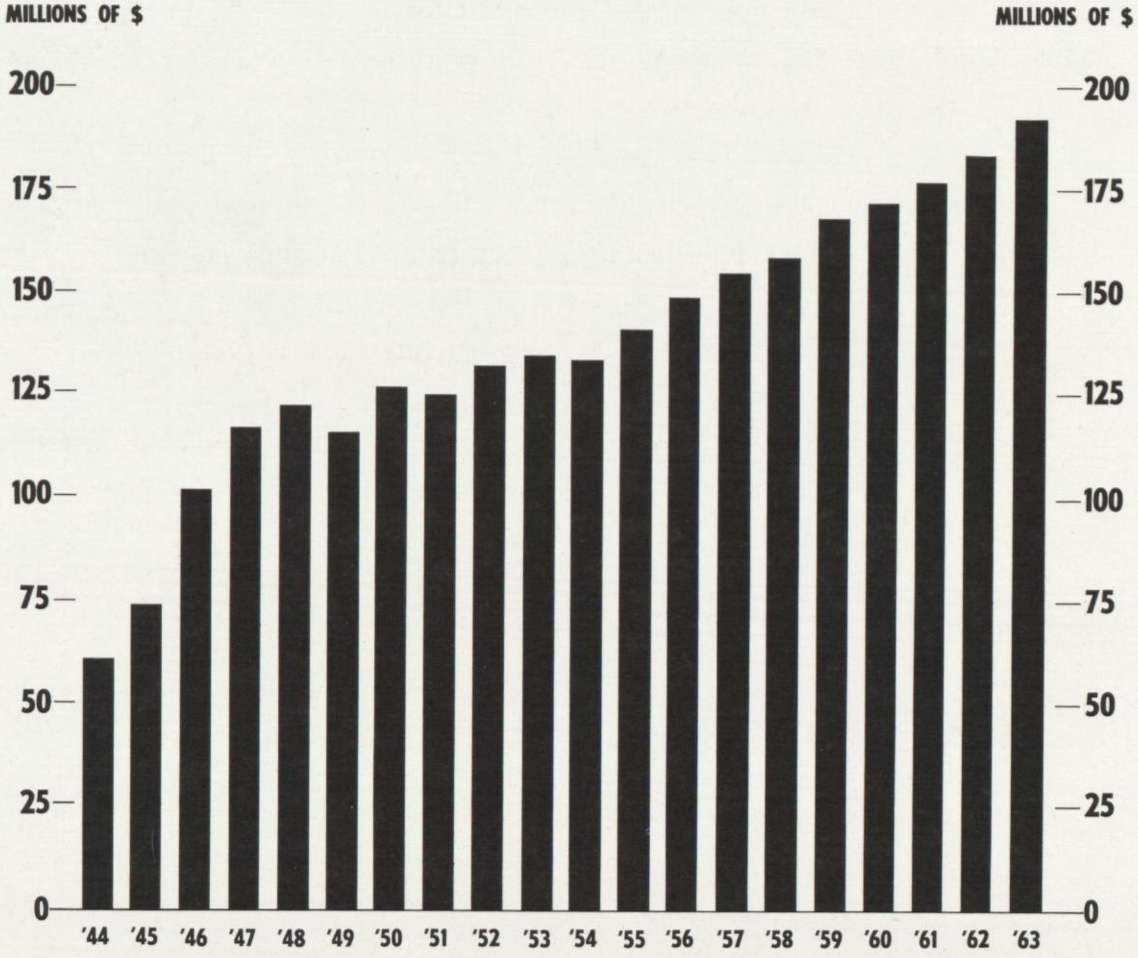
One other interesting point came out of this review. We looked at the records of all the branch stores opened in the last ten years, which had completed at least one full year of operation ending January 31st. There were eighteen such stores. Of these eighteen, fifteen of them operated in the black and three of them in the red for the first full year of operation ending January 31st. All three of those stores which lost money the first full year, swung over into the black in the second full year, so that all eighteen were making a profit in the second full year. These stores usually open at some midway point in the year —such as September or October. In our experience, a new store will usually show a loss or perhaps about break even for the few months of that part year (it usually cannot make up for its pre-opening expenses in those few months).

However, as explained above, our experience has been that when we get into the first full fiscal year of operation, fifteen out of eighteen stores were in the black, and eighteen out of eighteen were in the black in the second full year.

The above figures demonstrate that the Company's expansion in suburban stores during the last ten years has worked out well. It is management's intention to open more of these branch stores in the future.

The chart below gives a quick picture of the total sales of the Company for the last twenty years. In seventeen of those years, there were sales increases, with decreases in three years. The last time there was a sales decrease was 1954.

SALES DURING PAST 20 YEARS



Dividends

The dividend rate during the past year was continued at $1.00 per share. Four quarterly dividend payments of 25 cents each were made on March 15th, June 15th, September 14th and December 14th. This was the second year at the $1.00 rate.

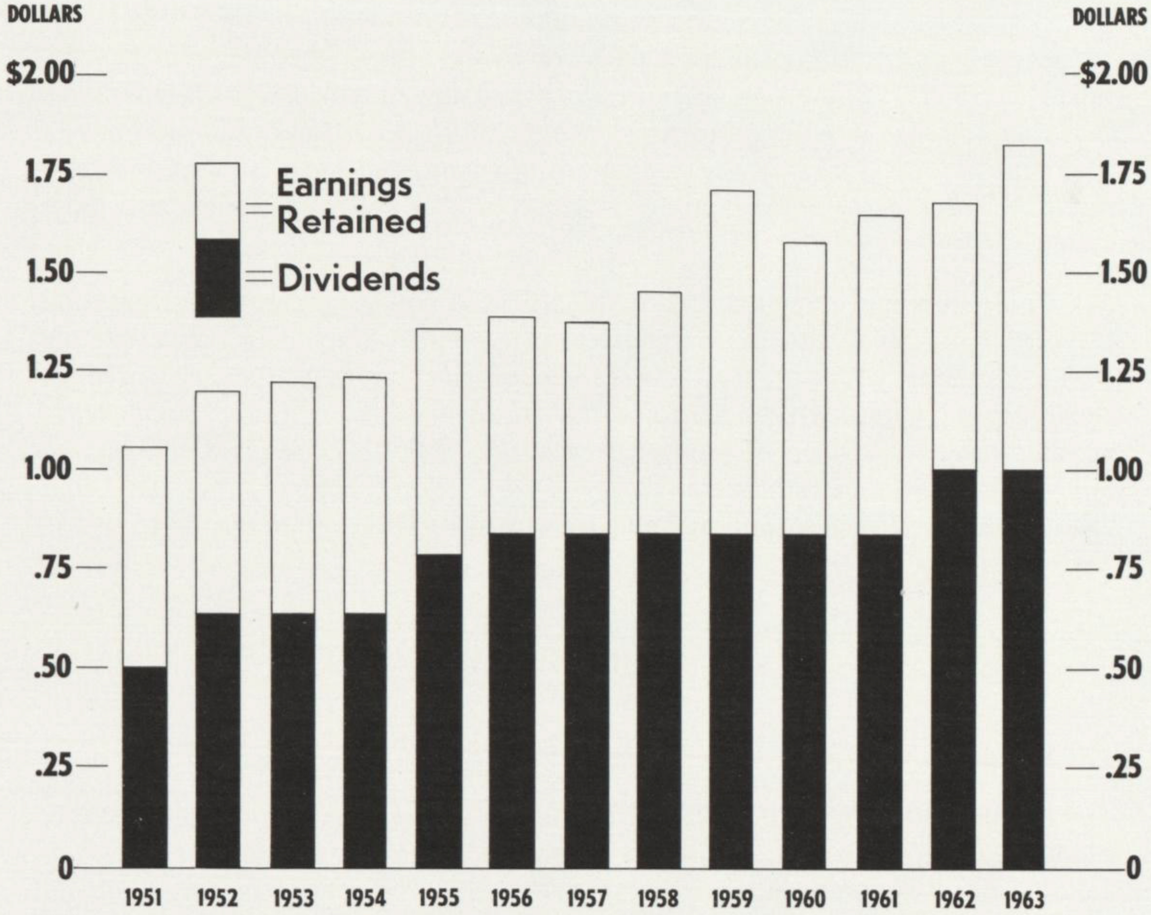
Total dividends paid during 1963 amounted to $2,947,818. This was equal to about 55% of the net profit for the year. For the past ten years, the dividend pay-out has averaged about 55%—net profit for the ten years totaled about $44,429,000 and the dividends paid during those ten years totaled about $24,471,000.

Our Company has paid dividends for the past twenty-four years without interruption, and the dividend has never been reduced during that time.

There were 5,408 stockholders in our Company at January 31, 1964.

The earnings, dividends and retained earnings per share for the last thirteen years are shown in the chart on the opposite page.

EARNINGS, DIVIDENDS, AND RETAINED EARNINGS PER SHARE OF STOCK



Inventory

Our stock of merchandise at the end of the year amounted to $29,665,608. This was higher than a year ago by $739,058, an increase of 2.6%. The percentage increase in inventory (2.6%) was a little less than the percentage increase in sales (4.7%). Inventories in comparable stores open both years showed an increase of $205,383 or 7/10ths of 1%.

Use of Electronic Data Processing

The Company has made some progress in applying electronic data processing methods to our business. While it is our experience that no machines can take the place of good judgment exercised by people in merchandising, it is equally our experience that these new machines can give very valuable information to guide people in the action to be taken. We now have three electronic computers in operation in different parts of the country—the first one was installed in 1961. These machines produce fast and detailed information as to what merchandise is selling and what is not selling, what quantities we have in stock and on order, what styles and colors are best, and other related information. We have made some definite progress in how well our people use these tools.

Computers and punch card systems are used for merchandise information as referred to above, and also have been successfully adapted in our Company to the handling of customers receivables, detail recording of sales by departments, etc. (commonly referred to in our business as "sales audit") and detail payroll records. Sixteen of our stores now use these machines, with an installation to serve two more stores now being set up. Our conclusion thus far is that a store must reach a certain volume level, before it is advantageous to put in these machines.

Expansion

We added two new stores to our Company during the year just closed.

In February 1963, our new store opened in the National Hills section of suburban Augusta, Georgia. The store is located in a new shopping center. It operates under the name White's and is identified with our White's store in downtown Augusta which has been operating in Augusta for ninety years.

In September 1963, our new store was opened in the new Edgewater shopping center located between Gulfport and Biloxi in Mississippi. The store operates under the Gayfer's name. The mother store is Gayfer's in downtown Mobile, Alabama (about seventy miles from Edgewater). Gayfer's in Mobile started business in 1879. Gayfer's now has three branches.

Sales for the first full year of operation in these two stores are estimated at about $5,000,000.

In two locations we enlarged the existing stores. About 35,000 square feet was added to the Western Hills store in suburban Cincinnati, Ohio and the Westgate store in suburban Toledo, Ohio was also increased in size by about 35,000 square feet.

Two small branch stores were closed near the end of January, 1964—located in Fremont and Bowling Green, Ohio. These two stores combined had sales in the latest year of $546,000. For the past year or two, these operations were only about breaking even in profit.

FUTURE EXPANSION

Our expansion has been going forward at a consistent pace. For a number of years we have averaged for each year, the addition of two new stores, plus enlargements of existing stores from time to time. For example, in the latest ten years—twenty stores have been added to our Company (eighteen branches opened and two downtown stores purchased). Our plans for new stores to be added in the future, are going forward at about the same pace. At the time this is written, the business deals have been closed for four more stores. However, it may be that none of these will open in 1964, although there is a possibility that one of them might. Several additional locations are on the planning boards for future years.

We have started a major modernization of our Joslin store in downtown Denver. One building is being torn down and rebuilt. This will involve an outlay of several million dollars. This is in line with our policy of maintaining strong downtown stores as an anchor for profitable branch stores.

The selling space in our Cherry Grove store will be increased in 1964 by 50,000 square feet. This is one of our McAlpin stores in suburban Cincinnati.

CURRENT NUMBER OF STORES

The stores in operation on January 31, 1964 are listed in the front of this report, consisting of 19 major department stores, 42 branches and 4 small appliance stores. (The appliance stores are relatively unimportant—combined annual volume of the four stores is under $375,000.)

Additions and Improvements to Physical Properties

The Company invested $4,145,524 in land, buildings and fixtures in the year just closed, as follows:

For new stores	$1,709,961
To enlarge two stores	875,257
For keeping existing stores up to date	1,560,306
	$4,145,524

Included in the $1,560,306 amount is $278,325 for installing additional escalators in our McAlpin store in downtown Cincinnati.

Depreciation charged to operations for the year amounted to $3,248,111. This was $314,967 more than the preceding year. The Company spent $743,703 during the year for repairs and maintenance, which was charged to operations.

Financing of Expansion

The Company has invested $51,912,767 in its properties for new stores and improvements during the last ten years, as follows:

Year Ended	Capital Expenditures
January 31, 1955	$ 3,368,916
January 31, 1956	4,723,342
January 31, 1957	9,876,679
January 31, 1958	6,440,533
January 31, 1959	5,945,457
January 31, 1960	4,618,077
January 31, 1961	3,743,852
January 31, 1962	4,167,115
January 31, 1963	4,883,272
January 31, 1964	4,145,524
	$51,912,767

Roughly two-thirds of the funds have come from retained earnings and the other one-third from long term borrowings and sale lease-back arrangements, as follows:

From retained earnings	$36,633,297
An increase in long term debt (ten years ago long term debt was $5,611,194 and currently it is $17,407,370—increase in ten years was $11,796,176)	11,796,176
Proceeds from three sale lease-back arrangements	3,483,294
	$51,912,767

Long Term Debt

The long term debt was reduced during the year by $1,208,940. The total of the long term debt at January 31, 1964 was $17,407,370. There were no borrowings during the year to add to the debt. The regular payments of principal were made during the year, including $583,000 on the insurance company loans and $605,444 on the mortgages.

As to the Company's commitment under leases, there are currently 79 leases which extend more than 3 years. The minimum annual rentals under these leases aggregate approximately $1,991,000.

Working Capital and Short Term Bank Loans

Working capital continues to be entirely adequate for the current needs of the business. The amount of working capital at January 31, 1964 was $37,533,095. This represented a small increase during the year of $242,336.

All short term bank loans were paid off during the year. A year ago, our balance sheet reflected short term notes payable to banks unpaid at the end of the year in the amount of $9,550,000. As explained in the annual report of last year, this was a temporary situation of our own making, in connection with customers installment contracts which we customarily sell to a bank. In February, 1963 we reverted to our former practice of selling the contracts to a bank, and paid off the $9,550,000 of notes on February 28, 1963. In the fall of 1963, we borrowed $3,000,000 from banks on short term notes and paid off those loans before the end of January. There were no short term bank loans outstanding on January 31, 1964.

Profit Sharing and Pension Plan

The Company's Profit Sharing Plan has completed its tenth year. At January 31, 1964 the Trustee of the Fund was holding cash and securities valued (at market) as follows:

From contributions by our people	$ 8,025,943
From Company contributions	3,674,392
(Invested in 138,843 shares of Mercantile Stores stock)	
	$11,700,335

The year 1963 was a year in which the market prices of the securities in the Fund went up (contrary to the 1962 experience when the price levels dropped). The total investment gain in the Fund (dividends, interest and rise in market prices) amounted to about 18% during the year—exclusive of any new money put in by our people or by the Company.

Our people greatly appreciate what the Profit Sharing Fund does for them. The tangible proof of this is that they contributed $1,128,513 of their own money into the Fund during the year. The Company contribution, geared to profits, amounted to $366,324 (a year ago the amount was $320,930). In the case of the Company, the contribution is an allowable deduction from taxable income.

As provided in the Plan, the Company contribution was allocated pro-rata among the people in the Plan, with the result that each participant's account was credited this year with approximately 40 cents for each dollar contributed by the individual (up to 6% of salary). A year ago the comparable figure was 36 cents.

A large bank acts as Trustee of the Fund. Contributions from our people are invested by the Trustee in various conservative investments selected by the Trustee. The Company contributions are invested in Mercantile Stores stock. During the year ended January 31, 1964, there were 17,635 shares of Mercantile Stores stock purchased in the open market—with such purchases spaced out over twelve months of the year.

There were 3,463 of our people in the Plan on February 1, 1964.

The Company Pension Plan has been operating for nineteen years. The cash and securities in the Pension Fund at January 31, 1964 amounted to $6,550,429 (at market value). There were 2,510 of our people covered by the Pension Plan at January 31, 1964. The Company pays the cost of the Pension Plan which amounted to $234,448 for the year under review. A year ago the comparable cost was $293,584. The cost was lower this year by $59,136 mainly because the Trustee sold securities in the Fund during the year and realized a profit of $92,968. The preceding year the profit on securities sold was $28,514.

Current Trend

The Company is off to a good start on the new year beginning February 1, 1964. This report is being written in March. Sales are ahead for the first month and a half of the new year by about 12%. Easter this year is in March, last year it was in April. Any very accurate comparison of the two years will have to wait until the end of April, to determine how the Easter business came out.

Cash Flow

The cash flow increased again this year. The cash flow per share amounted to $2.97 for the latest year, against $2.74 for the year before. The figures for the past ten years are given below:

Year Ended	Net Profit	Depreciation	Deferred Income Tax	Cash Flow
January 31, 1964	$5,370,000	$3,248,000	$145,000	$8,763,000
January 31, 1963	4,888,000	2,933,000	262,000	8,083,000
January 31, 1962	4,818,000	2,753,000	290,000	7,861,000
January 31, 1961	4,658,000	2,559,000	352,000	7,569,000
January 31, 1960	4,985,000	2,390,000	330,000	7,705,000
January 31, 1959	4,219,000	2,706,000	—	6,925,000
January 31, 1958	3,996,000	2,388,000	—	6,384,000
January 31, 1957	4,027,000	1,973,000	—	6,000,000
January 31, 1956	3,917,000	1,748,000	—	5,665,000
January 31, 1955	3,551,000	1,617,000	—	5,168,000

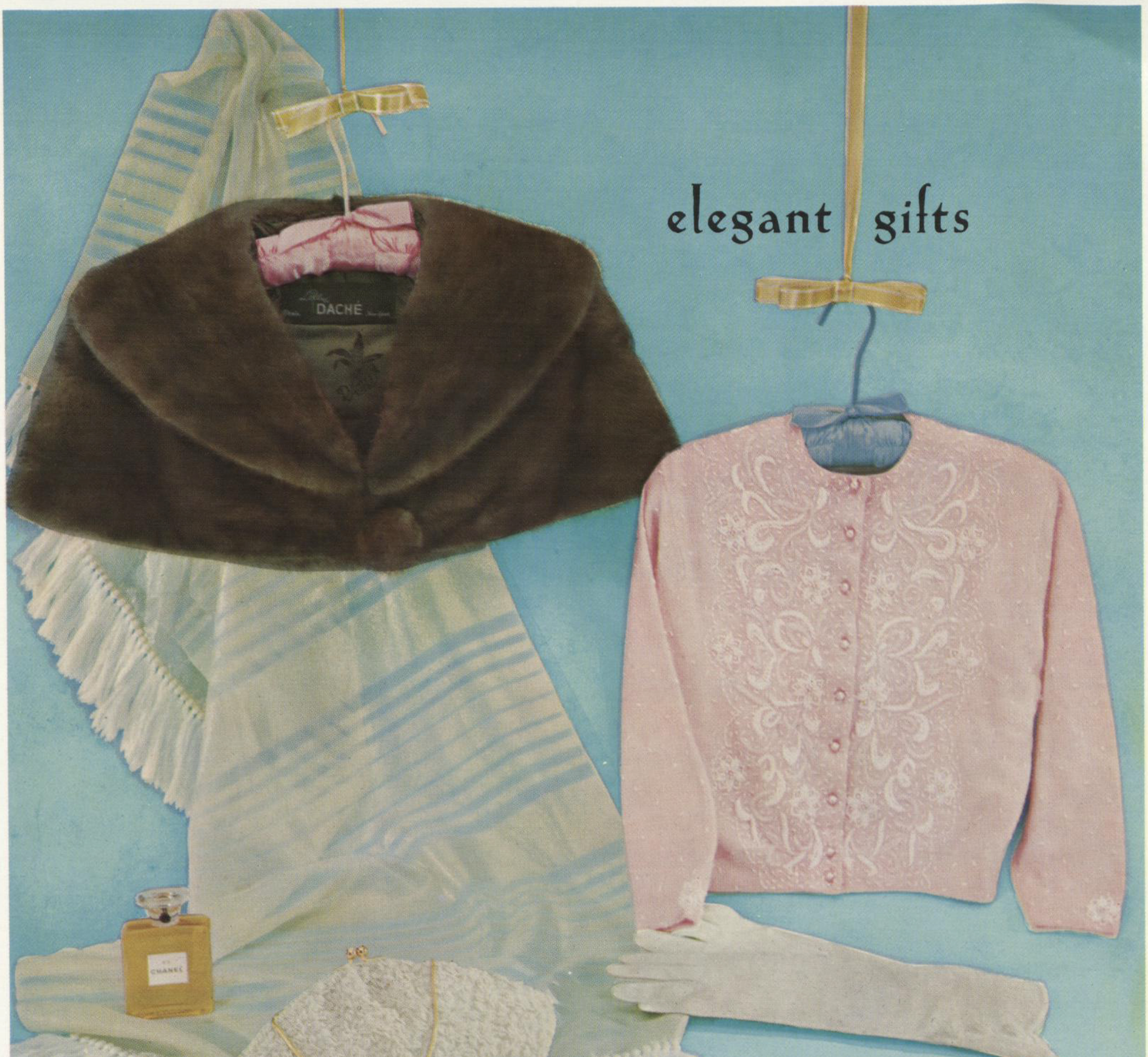
Fashion Acceptance

During the past year the Company continued to put emphasis on the importance of having fashion-right merchandise in our stores at all times. The importance of fashion has multiplied itself in more and more lines of merchandise. For example, merchants generally used to think of sheets and pillow cases as merchandise about as staple as could be found. Nowadays with colored sheets and varying patterns in the picture, there very definitely is fashion in the sheet business. This kind of thing is happening in many lines of merchandise.

This improving the fashion image of a store is not an easy thing to do, but management believes we have made some definite progress along this road during the last two years.

An example of our presentation of merchandise is shown on the opposite page. This is a reproduction of one page in our 1963 Christmas circular. (We distributed over three quarters of a million Christmas circulars in our various communities.)

elegant gifts



3A THE FUR: Lily Daché capelet of natural U.S. mink in EMBA cerulean, autumn haze, tourmaline or bleached white. **299.00***

3B HANDBAG: Dramatic baroque beading with bead-studded sequins. Alabaster or black. **10.99***

3C PERFUME: "Chanel No. 5" classic bottle. 0.275-oz. **7.50***

3C1 Perfume, ½-oz. **13.50***

3C2 Perfume, 1-oz. **25.00***

3D Purse-size aerosol atomizer, as shown. **5.00***

3E THE STOLE: French import of sheer silk with gold Lurex. White, as shown, or black. **7.99**

3F SWEATER: Imported hand-beaded, 70% lamb's wool, 30% angora fur blend. Chiffon lining. Pink, white, blue. 36-40. **29.99**

3G GLOVES: Exquisite hand-beaded cotton gloves. White or black. 6-7½. 8-Button length. **6.99**

3G1 Shortie gloves. **3.99**

3H JEWELRY: "Richelieu" simulated rosé pearls with fashion clasp that may be worn as a pin. **11.99***

3J CLOCK: Elgin "Fleur" alarm. Solid-brass boutique case with ivory color enamel. **13.75***

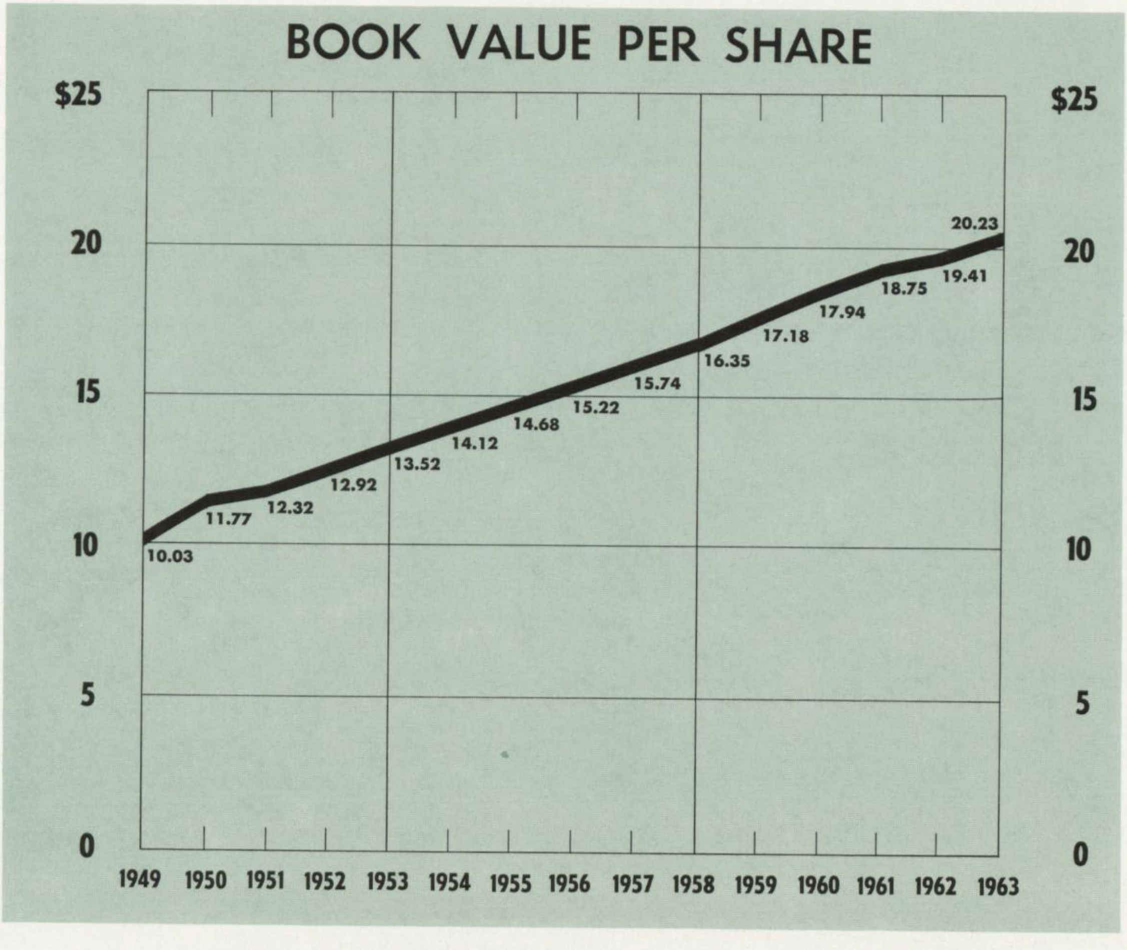
*Plus 10% Federal Tax

Various

The number of people in the Company continues to increase, as new stores are added. About 8,000 people are now regularly employed by the Company, with the number increasing to over 12,000 during peak periods.

The earnings retained for use in the business (earned surplus) amounted to $48,079,126 at the end of the year, after an increase of $2,422,339 during the year.

The total net worth or book value of the common stock of the Company is now just a little under $60,000,000. The book value per share has increased every year without interruption for over twenty-four years. Below is a chart showing the figures over the last fifteen years. The book value at January 31, 1964 was $20.23 per share.



The financial statements for the year are given on the succeeding pages, together with the report of our auditors, Arthur Andersen & Co., independent public accountants. Following that is a twenty-four year summary of the highlights of our business together with a ten year comparison of balance sheets.

The people in our Company are our greatest asset—far more important to our continuing progress than buildings, equipment, merchandise or methods. Our thanks are also expressed to the thousands of vendors who sell us goods and who have worked with us so well.

Respectfully submitted,

Harold W Jorkers

Chairman of the Board

H K Brodley

President

ARTHUR ANDERSEN & CO.

80 PINE STREET
NEW YORK 5

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1964, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1964, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 27, 1964.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1964

PROFIT AND LOSS

Net sales, including sales of leased departments		$192,408,732
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $3,248,111		182,989,773
Operating profit		$ 9,418,959
Other income (net):		
Carrying charges on installment accounts and miscellaneous net income	$3,410,654	
Less—Interest expense	1,669,456	1,741,198
Profit before provision for income taxes		$ 11,160,157
Provision for Income Taxes:		
Federal taxes	$5,270,000	
State and Canadian taxes	520,000	5,790,000
Net profit for the year		$ 5,370,157

CAPITAL SURPLUS

Balance, January 31, 1964 (no change during the year)	$ 6,145,082

EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS)

Balance, January 31, 1963	$ 45,656,787
Add:	
Net profit for the year	5,370,157
	$ 51,026,944
Dividends declared on common stock—$1.00 per share	2,947,818
Balance, January 31, 1964 (see Note)	$ 48,079,126

The note on the accompanying consolidated balance sheet is an integral part of the above statements.

MERCANTILE STO

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:			
Cash			$ 8,576,629
Accounts receivable—			
Customers accounts—			
Regular retail accounts		$ 8,891,865	
Installment accounts not sold		1,507,993	
Equity in accounts sold (the uncollected balances of which amounted to $22,602,982)		11,371,783	
Other accounts		592,603	
		$22,364,244	
Less—Reserve for doubtful accounts		1,808,155	20,556,089
Merchandise inventories, priced at the lower of cost or market			29,665,608
U. S. Government and other marketable securities, at cost, approximately equal to market			1,563,158
Unexpired insurance, prepaid rent, etc.			885,806
Total current assets			$ 61,247,290
Property and Fixtures, at cost:			
Land		$ 7,725,282	
Buildings and building improvements	$37,887,265		
Less—Accumulated depreciation	15,113,265	22,774,000	
Store fixtures, etc.	$18,953,605		
Less—Accumulated depreciation	8,571,071	10,382,534	40,881,816
			$102,129,106

RES COMPANY, INC.

COMPANIES

SHEET — JANUARY 31, 1964

LIABILITIES

Current Liabilities:		
Accounts payable		$ 9,885,057
Accrued taxes (other than Federal income), compensation, rent, etc.		6,404,034
Reserve for Federal income taxes		6,216,164
Current maturities of long-term debt		1,208,940
Total current liabilities		$ 23,714,195
Long-Term Debt:		
Notes payable to an insurance company (see Note)—		
3⅜% notes, $250,000 due annually	$ 750,000	
5⅛% notes, $333,000 due annually	6,834,000	
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages	9,823,370	17,407,370
Deferred Federal Income Taxes		1,379,000
Capital Stock and Surplus:		
Common stock, par value $1.83⅓ per share—		
Authorized and issued 2,950,998 shares	$ 5,410,163	
Less—3,180 shares held in treasury	5,830	
Outstanding 2,947,818 shares	$ 5,404,333	
Capital surplus	6,145,082	
Earnings retained for use in the business (earned surplus) (see Note)	48,079,126	59,628,541
		$102,129,106

NOTE:

The loan agreement relating to the 5⅛% notes payable to an insurance company provides for repayment in annual installments of $333,000 with a balance of $2,500,000 due on December 1, 1978.

Under the terms of the insurance company loan agreements, payment of cash dividends after January 31, 1958, is restricted to 70% of the net income (as defined) after that date. As of January 31, 1964, accumulated undistributed earnings of $3,388,000 are free of this restriction.

MERCANTILE STO

AND SUBSIDIARY

TWENTY-FOUR YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit	Net Profit Per Share (Note A)
1964	$192,408,732	$11,160,157	$5,790,000	$5,370,157	$1.82
1963	183,840,305	10,297,664	5,410,000	4,887,664	1.66
1962	175,820,970	10,068,178	5,250,000	4,818,178	1.63
1961	170,247,354	9,668,412	5,010,000	4,658,412	1.58
1960	167,799,529	10,375,430	5,390,000	4,985,430	1.69
1959	157,915,790	8,709,061	4,490,000	4,219,061	1.44
1958	153,994,341	8,177,638	4,182,000	3,995,638	1.37
1957	148,773,457	8,086,964	4,060,000	4,026,964	1.38
1956	138,785,704	8,036,717	4,120,000	3,916,717	1.35
1955	130,366,021	6,970,553	3,420,000	3,550,553	1.23
1954	130,882,985	6,933,491	3,410,000	3,523,491	1.22
1953	128,603,624	7,080,850	3,620,000	3,460,850	1.19
1952	124,699,947	6,442,260	3,322,000	3,120,260	1.05
1951	125,427,006	9,397,003	4,290,000	5,107,003	1.72
1950	112,607,776	5,932,129	2,325,000	3,607,129	1.21
1949	119,091,512	8,369,725	3,243,000	5,126,725	1.72
1948	113,012,702	8,444,538	3,286,000	5,158,538	1.73
1947	103,007,184	10,800,760	4,618,000	4,682,760	1.57
1946	74,407,149	5,894,901	4,084,000	1,810,901	.60
1945	59,668,304	6,633,941	4,854,000	1,779,941	.59
1944	50,277,807	4,700,875	3,276,760	1,424,115	.47
1943	41,173,113	3,340,264	2,118,645	1,221,619	.41
1942	34,867,853	1,912,941	812,165	1,100,776	.37
1941	29,509,394	939,991	278,548	661,443	.21

NOTE A:

In the above table wherever "Per Share" figures are given, such figures are all based on the stock after the 10 for 1 split in 1946 and the 2-for-1 split in 1962 and all prior year figures have been appropriately restated.

RES COMPANY, INC.

COMPANIES

EARNINGS AND RETAINED EARNINGS

DIVIDENDS PAID				
Common				
Per Share (Note A)	Amount	Preferred Amount	Retained Earnings (Earned Surplus)	Book Value Per Share (Note A)
$ 1.00	$2,947,818	——	$48,079,126	$20.23
1.00	2,947,818	——	45,656,787	19.41
.82½	2,431,950	——	43,716,941	18.75
.82½	2,431,950	——	41,330,713	17.94
.82½	2,423,777	——	39,104,251	17.18
.82½	2,415,029	——	36,542,598	16.35
.82½	2,411,835	——	34,738,566	15.74
.82½	2,402,442	——	31,654,763	15.22
.77½	2,248,742	——	30,030,241	14.68
.62½	1,809,999	——	28,362,266	14.12
.62½	1,809,999	——	26,621,712	13.52
.62½	1,836,849	$ 4,375	24,908,220	12.92
.50	1,470,404	17,500	22,915,344	12.32
.50	1,471,295	19,240	21,651,863	11.77
.50	1,481,220	22,040	18,035,395	10.03
.50	1,481,220	24,701	15,931,526	9.32
.50	1,481,220	25,676	12,310,722	8.10
.50	1,481,220	25,676	8,659,080	6.86
.12½	370,305	25,676	5,483,216	5.79
.12½	370,305	28,451	4,068,296	5.31
.12½	368,930	36,176	2,687,111	4.84
.12½	361,255	37,133	1,668,102	4.60
.10	290,444	40,187	844,871	4.29
.10	289,612	41,732	74,726	4.03

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

	January 31,			
ASSETS	*1964*	*1963*	*1962*	*1961*
Cash and Marketable Securities	$ 10,139,787	$ 9,000,576	$ 9,832,526	$ 8,374,386
Receivables, less Reserve	20,556,089	27,225,565	15,778,321	15,120,028
Merchandise Inventories	29,665,608	28,926,550	27,070,761	26,087,816
Prepaid Expenses	885,806	723,221	914,171	1,171,057
TOTAL CURRENT ASSETS	$ 61,247,290	$ 65,875,912	$53,595,779	$50,753,287
Fixed Assets (Net)	40,881,816	39,765,753	38,020,878	36,873,849
	$102,129,106	$105,641,665	$91,616,657	$87,627,136

LIABILITIES				
Current Liabilities	$ 23,714,195	$ 28,585,153	$18,298,178	$16,214,399
Long-Term Debt	17,407,370	18,616,310	17,080,123	17,850,609
Deferred Federal Income Taxes	1,379,000	1,234,000	972,000	682,000
Deferred Income	—	—	—	—
Capital Stock	5,404,333	5,404,333	5,404,333	5,404,333
Surplus Reserve	—	—	—	—
Surplus	54,224,208	51,801,869	49,862,023	47,475,795
	$102,129,106	$105,641,665	$91,616,657	$87,627,136
Net Working Capital	$ 37,533,095	$ 37,290,759	$35,297,601	$34,538,888

RES COMPANY, Inc.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,					
1960	1959	1958	1957	1956	1955
$ 7,782,702	$ 8,517,822	$ 6,910,994	$ 7,048,251	$ 7,129,398	$ 8,928,401
14,741,032	12,985,902	12,491,754	13,302,895	10,020,053	11,519,124
27,429,533	24,562,675	24,511,645	24,794,615	24,115,864	21,342,757
1,057,629	1,029,165	1,238,460	990,185	886,610	1,213,341
$51,010,896	$47,095,564	$45,152,853	$46,135,946	$42,151,925	$43,003,623
36,837,080	36,651,716	33,562,828	29,794,822	21,892,498	18,996,955
$87,847,976	$83,747,280	$78,715,681	$75,930,768	$64,044,423	$62,000,578

$18,257,857	$21,019,367	$17,206,139	$17,652,613	$15,837,947	$15,787,889
18,606,453	14,828,883	15,447,820	13,892,909	5,562,865	4,993,357
330,000	—	—	—	—	—
—	—	—	—	—	336,878
5,404,333	5,369,591	5,363,872	5,347,188	5,326,105	5,309,330
—	—	—	1,500,000	1,500,000	1,500,000
45,249,333	42,529,439	40,697,850	37,538,058	35,817,506	34,073,124
$87,847,976	$83,747,280	$78,715,681	$75,930,768	$64,044,423	$62,000,578
$32,753,039	$26,076,197	$27,946,714	$28,483,333	$26,313,978	$27,215,734